

**TOWN OF
FRAMINGHAM, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2003

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

Corporate Place 93 • Suite 125
100 Burt Road
Andover, MA 01810
Tel (978) 749-0005 • Fax (978) 749-0006
melansonheath.com

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Framingham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, Massachusetts, as of and for the year ended June 30, 2003 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2002), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Framingham's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, as of June 30, 2003 (except the Framingham Contributory Retirement System which is as of December 31, 2002), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

Nashua, NH • Greenfield, MA • Ellsworth, ME

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing in the back of this report, are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 15, 2004 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wickenson Heath + Company P.C.

Andover, Massachusetts
January 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Framingham, we offer readers of the Town of Framingham's financial statements this narrative overview and analysis of the financial activities of the Town of Framingham for the fiscal year ended June 30, 2003. **All amounts in the Management's Discussion and Analysis, unless otherwise indicated, are expressed in thousands of dollars.**

A. FINANCIAL HIGHLIGHTS

- The assets of the Town of Framingham exceeded its liabilities at the close of the most recent fiscal year by \$ 102,775 (net assets). Of this amount, \$ 30,622 constitutes unrestricted net assets some of which are available for use as of June 30, 2003 and others, though measurable, will not be available until subsequent periods.
- As of the close of the fiscal year, the government's total net assets increased by \$ 2,466.
- As of the close of the current fiscal year, the Town of Framingham's governmental funds reported combined ending fund balances of \$ 691, a decrease of \$ 13,451 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 4,915, or 2.9% of total general fund expenditures. Management has established an additional \$ 1,157 as a general fund designated fund balance.
- The Town of Framingham's total debt (bonds and bond anticipation notes) was \$ 109,859, an increase of \$ 18,374 during the current fiscal year. The key factor in this increase was the bond anticipation notes issued to fund the high school renovations.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Framingham's basic financial statements. The Town of Framingham's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Framingham's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town of Framingham's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Framingham is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Framingham that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government activities of the Town of Framingham include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities of the Town of Framingham include Water, Sewer and Arena activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Framingham, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Framingham can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Framingham maintains in excess of 100 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the High School Renovation fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The Town of Framingham adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town of Framingham maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Framingham uses enterprise funds to account for its Water, Sewer and Arena operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town of Framingham's various functions. The Town of Framingham uses internal service funds to account for its self-insured employee health program. Because this service predominantly benefits governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Arena operations, which are considered to be major funds of the Town of Framingham.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of Framingham's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Framingham's progress in funding its obligation to provide pension benefits to its employees.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years:

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 62,959	\$ 25,904	\$ 16,967	\$ 14,969	\$ 79,926	\$ 40,873
Capital assets	<u>114,154</u>	<u>137,462</u>	<u>38,407</u>	<u>36,565</u>	<u>152,561</u>	<u>174,027</u>
Total assets	177,113	163,366	55,374	51,534	232,487	214,900
Long-term liabilities outstanding	55,041	60,735	2,777	2,465	57,818	63,200
Other liabilities	<u>68,675</u>	<u>50,453</u>	<u>3,219</u>	<u>939</u>	<u>71,894</u>	<u>51,392</u>
Total liabilities	123,716	111,188	5,996	3,404	129,712	114,592
Net assets:						
Invested in capital assets, net of related debt	34,248	35,401	35,994	33,592	70,242	68,993
Restricted	1,911	3,213	-	-	1,911	3,213
Unrestricted	<u>17,238</u>	<u>13,564</u>	<u>13,384</u>	<u>14,538</u>	<u>30,622</u>	<u>28,102</u>
Total net assets	\$ <u>53,397</u>	\$ <u>52,178</u>	\$ <u>49,378</u>	\$ <u>48,130</u>	\$ <u>102,775</u>	\$ <u>100,308</u>

TOWN OF FRAMINGHAM'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 9,567	\$ 13,896	\$ 20,306	\$ 19,455	\$ 29,873	\$ 33,351
Operating grants and contributions	49,241	26,794	-	-	49,241	26,794
Capital grants and contributions	5,406	360	-	-	5,406	360
General revenues:						
Property taxes	110,133	104,709	-	-	110,133	104,709
Excises	8,334	7,119	-	-	8,334	7,119
Grants and contributions not restricted to specific programs	11,285	25,463	-	-	11,285	25,463
Other	<u>4,430</u>	<u>3,685</u>	<u>99</u>	<u>207</u>	<u>4,529</u>	<u>3,892</u>
Total revenues	198,396	182,026	20,405	19,662	218,801	201,688
Expenses:						
General government	8,947	9,155	-	-	8,947	9,155
Public safety	22,445	22,370	-	-	22,445	22,370
Education	103,760	99,867	-	-	103,760	99,867
Public works	9,651	11,088	-	-	9,651	11,088
Human services	1,056	1,215	-	-	1,056	1,215
Culture and recreation	4,843	4,591	-	-	4,843	4,591
Employee benefits	39,736	24,760	-	-	39,736	24,760
Intergovernmental	3,559	1,776	-	-	3,559	1,776
Interest on long-term debt	3,058	4,004	-	-	3,058	4,004
Water	-	-	7,525	7,392	7,525	7,392
Sewer	-	-	11,005	10,864	11,005	10,864
Arena	-	-	749	658	749	658
Total expenses	<u>197,055</u>	<u>178,826</u>	<u>19,279</u>	<u>18,914</u>	<u>216,334</u>	<u>197,740</u>
Increase in net assets before transfers and permanent fund contributions	1,341	3,200	1,126	748	2,467	3,948
Transfers	(122)	(142)	122	142	-	-
Increase in net assets	1,219	3,058	1,248	890	2,467	3,948

(continued)

(continued)

Net assets - beginning of year (as restated)	<u>52,178</u>	<u>49,120</u>	<u>48,130</u>	<u>47,240</u>	<u>100,308</u>	<u>96,360</u>
Net assets - end of year	\$ <u>53,397</u>	\$ <u>52,178</u>	\$ <u>49,378</u>	\$ <u>48,130</u>	\$ <u>102,775</u>	\$ <u>100,308</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Framingham, assets exceeded liabilities by \$ 102,775 at the close of the most recent fiscal year. The largest portion of the Town of Framingham's net assets (68%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town of Framingham uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Framingham's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Framingham's net assets (2%) represents resources that are subject to external restrictions on how they may be used (e.g., grants and trust funds). The remaining balance of unrestricted net assets is \$ 30,622, which includes amounts that are available for use as of June 30, 2003, and other amounts, though measurable, that will not be available until subsequent periods (e.g., unrestricted fund balances subject to appropriation, taxes and charges billed but not yet collected).

At the end of the current fiscal year, the Town of Framingham is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the Town of Framingham's net assets by \$ 1,219. Key elements of this increase were as follows:

Governmental Activities:

General fund revenues over expenditures	\$ 2,845
Excess of bond principle payments over depreciation expense	1,639
Internal service fund expenses over revenues	(1,121)
Deferral of current year bond premium	(1,099)
Other changes	(1,045)
Total governmental activities	\$ <u>1,219</u>

Business-type activities. Business-type activities increased the Town of Framingham's net assets by \$ 1,248, and consist of the following:

Water Fund	\$ 550
Sewer Fund	952
Arena Fund	(254)
Total	\$ <u>1,248</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town of Framingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town of Framingham's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town of Framingham's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Framingham's governmental funds reported combined ending fund balances of \$ 691, a decrease of \$ 13,451 in comparison with the prior year. This decrease is primarily a function of short-term financing of the Framingham High School Renovation Project because project expenditures are recorded but bond anticipation note proceeds are not recognized as revenue to offset the expenditures. The negative impact of the Project on fund balance will be reversed in a future period when short-term debt is converted to long-term financing. A portion of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period (\$ 1,767), and (2) to be used as a funding source for the subsequent budget (\$ 4,107).

The general fund is the chief operating fund of the Town of Framingham. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 4,915, while total fund balance was \$ 11,928. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2.9% of total general fund expenditures, while total fund balance represents 7.1% of that same amount. Management has established \$ 1,157 of the general fund balance to pay the debt services on the current notes payable.

The fund balance of the Town of Framingham's general fund increased by \$ 2,845 during the current fiscal year. Key factors in this change are as follows:

- Appropriated use of free cash and overly surplus as a budgetary funding source for the fiscal year 2003 operating budget, net of other financing uses (\$ 2,313).

- Funding of Teachers Pay Deferral as Authorized by Massachusetts Department of Revenue of approximately \$ 200.
- Revenue surplus of \$ 2,336.
- Appropriation turnbacks as of \$ 1,666.
- Excess tax revenue collections of \$ 1,005.

Proprietary funds. The Town of Framingham's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 13,384. The total growth in net assets was \$ 1,248. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town of Framingham's business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were reductions of \$ 702 primarily due to reductions in State aid.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town of Framingham's investment in capital assets for its governmental and business-type activities as of June 30, 2003 amounts to \$ 152,561 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways and bridges.

Major capital asset events during the current fiscal year included the following:

- Framingham High School construction is currently in phase two of three phases and projected to be completed in August, 2005. Total architectural design and construction costs are estimated at \$ 54,000. This project is being financed through the issuance of debt that was excluded from the limits of Proposition 2 ½ by voter referendum. The project has been approved for 90% reimbursement from the Commonwealth of Massachusetts under the guidelines for school building projects in districts with approved Racial Balance plans. As of June 30, the Town has issued bond anticipation notes for this project totaling \$ 44,428.
- At the April, 2002 Annual Town Meeting, Town Meeting authorized the purchase of an integrated financial management software system. After an extensive search, the town selected a product called MUNIS. MUNIS

software is used by more than 120 Massachusetts communities. During the fiscal year, we implemented the following modules: Tax, Purchasing, Accounts Payable, and the General Ledger. The Payroll module is scheduled for January 1, 2004.

- The Department of Public Works has started a comprehensive study of the Storm Water Systems. The current system consists of more than 200 miles of surface and subsurface drainage systems, 12,200 catch basin and man-hole structures, and more than 600 drainage outfalls. The result of the study will be a detailed GIS mapping of the system that will include the location of all of the surface drainage components and conditional assessment of the major drainage culverts and outfalls. This project is funded by a \$ 500 loan from the Massachusetts Water Pollution Abatement Trust.
- During fiscal 2003, the Department of Public Works started a three-year program for the study and development of the master plan of the Town's sewer system and a two year study of the Town's water distribution system. These studies, costing an estimated \$ 350 and \$ 300 respectively, will result in comprehensive GIS mapping of the entire water and sewer distribution system which management will be able to use to maintain these systems.
- Continuing its policy to repair or replace mains on an on going policy, the Department of Public Works completed the relining of water mains on Hollis Street, Winch Road, and Salem End Road and started work on the replacement of water mains on Bishop Street, Hartford Street, Howard Street and Locker Street. These projects have been funded by excess water and sewer rates and through the issuance of debt.
- The Town of Framingham substantially completed construction on the Downtown Common Restoration and Enhancement Project as of December 2002, the first of three projects funded partially by the National Park Service America's Treasures Project. In addition, the Period Streetlight project was started, replacing streetlights at various locations around the downtown area. The design on restoration of the Danforth Street Bridge was completed and the restored bridge was reinstalled in October of 2003. Total anticipated costs for the three projects is \$ 1,183, to be funded by \$ 237 of general obligation notes, \$ 499 the National Park Service, \$ 70 from Community development funds, \$ 276 from various state agencies and highway funds, and the remainder from local contributions and mitigation funds.

The following is a summary of the Town's Capital Assets for the current and prior fiscal years:

CAPITAL ASSETS
(net of depreciation)
June 30, 2003 and 2002

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 17,256	\$ 17,149	\$ 640	\$ 640	\$ 17,896	\$ 17,789
Buildings and improvements	68,689	71,319	1,401	1,415	70,090	72,734
Machinery and equipment	2,075	1,091	522	519	2,597	1,610
Vehicles	3,215	3,134	587	500	3,802	3,634
Infrastructure	-	-	33,758	31,873	33,758	31,873
Construction in progress	<u>22,919</u>	<u>7,867</u>	<u>1,499</u>	<u>1,618</u>	<u>24,418</u>	<u>9,485</u>
Total	\$ <u>114,154</u>	\$ <u>100,560</u>	\$ <u>38,407</u>	\$ <u>36,565</u>	\$ <u>152,561</u>	\$ <u>137,125</u>

Additional information on the Town of Framingham's capital assets can be found in the footnotes to the financial statements.

Long-term and short-term debt. At the end of the current fiscal year, the Town of Framingham had total bonded debt and anticipation notes outstanding of \$ 109,859, all of which was debt backed by the full faith and credit of the government.

OUTSTANDING DEBT
General Obligation Bonds and Anticipation Notes
June 30, 2003

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
General obligation bonds	\$ 59,934	\$ 63,981	\$ 3,214	\$ 2,972	\$ 63,148	\$ 66,953
Bond anticipation notes	<u>44,512</u>	<u>24,328</u>	<u>2,199</u>	<u>205</u>	<u>46,711</u>	<u>24,533</u>
Total	\$ <u>104,446</u>	\$ <u>88,309</u>	\$ <u>5,413</u>	\$ <u>3,177</u>	\$ <u>109,859</u>	\$ <u>91,486</u>

The Town of Framingham maintains an "Aa3" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town of Framingham is \$ 324,679, which is significantly in excess of the Town of Framingham's outstanding general obligation debt.

Additional information on the Town of Framingham's long-term debt can be found in the footnotes to the financial statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unadjusted unemployment rate for the Town of Framingham is currently 4.2% (annual), which is an increase from a rate of 4.0% a year ago.

This compares to the State's average unemployment rate of 5.7% and the national rate of 6.5%.

- Inflationary trends in the region compare favorably to national indices.
- The above factors were considered in preparing the Town of Framingham's budget for the 2003 fiscal year.
- During the current fiscal year, unreserved fund balance in the general fund increased to \$ 6,072. In addition, the Town of Framingham has appropriated \$ 4,088 of "free cash" and "overlay surplus" of which \$ 3,559 will be used to finance the FY04 general fund operating budget and \$ 529 will fund capital projects. The \$ 4,259 of "free cash" certified by the Massachusetts Department of Revenue as of July 1, 2003 is available, subject to appropriation, to finance FY04 or FY05 expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Framingham's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town Accountant
Town of Framingham
Memorial Building
150 Concord Street
Framingham, Massachusetts 01702

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Net Assets

June 30, 2003

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and cash equivalents	\$ 54,578,593	\$ 10,760,658	\$ 65,339,251
Receivables, net of allowance for uncollectibles:			
Property taxes	1,383,418	-	1,383,418
Motor vehicle excise	1,367,522	-	1,367,522
User fees	232,939	6,206,635	6,439,574
Departmental and other	726,765	-	726,765
Intergovernmental	2,509,858	-	2,509,858
Other assets	17,611	-	17,611
Noncurrent:			
Receivables, net of allowance for uncollectibles	2,142,407	-	2,142,407
Capital assets, net of accumulated depreciation	114,154,108	38,406,507	152,560,615
TOTAL ASSETS	177,113,221	55,373,800	232,487,021
LIABILITIES			
Current:			
Warrants payable	3,051,244	285,714	3,336,958
Accounts payable	2,891,999	172,631	3,064,630
Accrued liabilities	8,974,248	17,357	8,991,605
Tax refunds payable	994,362	-	994,362
Notes payable	44,511,600	2,199,400	46,711,000
Other liabilities	189,528	6,569	196,097
Current portion of long-term liabilities:			
Bonds payable	5,965,550	445,573	6,411,123
Compensated absences	1,548,141	91,851	1,639,992
Unamortized premium	549,409	-	549,409
Noncurrent:			
Bonds payable	53,968,149	2,768,609	56,736,758
Compensated absences	522,947	8,201	531,148
Unamortized premium	549,409	-	549,409
TOTAL LIABILITIES	123,716,586	5,995,905	129,712,491
NET ASSETS			
Invested in capital assets, net of related debt	34,248,022	35,993,879	70,241,901
Restricted for:			
Federal and state grants	1,446,066	-	1,446,066
Permanent funds	464,790	-	464,790
Unrestricted	17,237,757	13,384,016	30,621,773
TOTAL NET ASSETS	\$ 53,396,635	\$ 49,377,895	\$ 102,774,530

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Activities

Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 8,946,934	\$ 4,401,291	\$ 1,480,214	\$ 975,116	\$ (2,090,313)	\$ -	\$ (2,090,313)
Public safety	22,445,415	3,143,734	838,093	-	(18,463,588)	-	(18,463,588)
Education	103,759,930	1,533,031	34,761,115	2,807,396	(64,658,388)	-	(64,658,388)
Public works	9,650,882	274,336	246,319	1,373,750	(7,756,477)	-	(7,756,477)
Health and human services	1,056,159	84,926	430,001	-	(541,232)	-	(541,232)
Culture and recreation	4,842,664	129,323	230,024	250,001	(4,233,316)	-	(4,233,316)
Employee benefits	39,736,021	-	11,254,978	-	(28,481,043)	-	(28,481,043)
Interest	3,058,438	-	-	-	(3,058,438)	-	(3,058,438)
Intergovernmental	3,558,805	-	-	-	(3,558,805)	-	(3,558,805)
Total Governmental Activities	197,055,248	9,566,641	49,240,744	5,406,263	(132,841,600)	-	(132,841,600)
Business-Type Activities:							
Water services	7,525,163	8,035,695	-	-	-	510,532	510,532
Sewer services	11,005,318	11,918,384	-	-	-	913,066	913,066
Arena services	748,804	351,795	-	-	-	(397,009)	(397,009)
Total Business-type Activities	19,279,285	20,305,874	-	-	-	1,026,589	1,026,589
Total Primary Government	\$ 216,334,533	\$ 29,872,515	\$ 49,240,744	\$ 5,406,263	(132,841,600)	1,026,589	(131,815,011)
General Revenues:							
Property taxes					110,132,963	-	110,132,963
Motor vehicle and other excise taxes					8,334,191	-	8,334,191
Penalties and interest on taxes					2,848,514	-	2,848,514
Grants and contributions not restricted to specific programs					11,285,539	-	11,285,539
Investment income					934,656	99,139	1,033,795
Miscellaneous					646,433	-	646,433
Transfers, net					(121,822)	121,822	-
Total general revenues and transfers					134,060,474	220,961	134,281,435
Change in Net Assets					1,218,874	1,247,550	2,466,424
Net Assets:							
Beginning of Year, as restated					52,177,761	48,130,345	100,308,106
End of Year					\$ 53,396,635	\$ 49,377,895	\$ 102,774,530

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Balance Sheet

June 30, 2003

ASSETS

Cash and cash equivalents				
Receivables:				
Property taxes				
Motor vehicle excise				
User fees				
Departmental and other				
Intergovernmental				
Other assets				
TOTAL ASSETS				

LIABILITIES AND FUND BALANCES

Liabilities:				
Warrants payable				
Accounts payable				
Accrued liabilities				
Tax refunds payable				
Deferred revenues				
Other liabilities				
Notes payable				
TOTAL LIABILITIES				
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations				
Expenditures				
Perpetual funds				
Unreserved:				
Designated				
Undesignated, reported in:				
General fund				
Special revenue funds				
Capital projects funds				
TOTAL FUND BALANCES				
TOTAL LIABILITIES AND FUND BALANCES				

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Fiscal Year Ended June 30, 2003

	General	High School Renovation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 112,552,841	-	-	\$ 112,552,841
Excises	6,732,861	-	-	6,732,861
Penalties, interest and other taxes	4,361,604	-	-	4,361,604
Charges for services	3,374,381	-	3,609,257	6,983,638
Intergovernmental	39,126,258	-	13,986,387	53,112,645
Licenses and permits	1,694,183	-	-	1,694,183
Fines and forfeitures	723,585	-	-	723,585
Interest earnings	646,892	-	189,093	835,985
Miscellaneous	1,365,465	-	445,682	1,811,147
Total Revenues	<u>170,578,070</u>	<u>-</u>	<u>18,230,419</u>	<u>188,808,489</u>
Expenditures:				
Current:				
General government	6,706,164	-	2,606,773	9,312,937
Public safety	19,509,302	-	2,235,839	21,745,141
Education	88,611,621	-	10,787,288	99,398,909
Public works	8,272,886	-	825,120	9,098,006
Health and human services	886,462	-	154,383	1,040,845
Culture and recreation	3,634,545	-	689,308	4,323,853
Employee benefits	26,752,847	-	2,429,076	29,181,923
Debt service	9,236,688	-	-	9,236,688
Intergovernmental	3,558,807	-	-	3,558,807
Capital outlay	-	16,909,494	-	16,909,494
Total Expenditures	<u>167,169,322</u>	<u>16,909,494</u>	<u>19,727,787</u>	<u>203,806,603</u>
Excess (deficiency) of revenues over expenditures	3,408,748	(16,909,494)	(1,497,368)	(14,998,114)
Other Financing Sources (Uses):				
Proceeds of bonds	-	-	1,668,697	1,668,697
Operating transfers in	297,336	-	907,426	1,204,762
Operating transfers out	(861,022)	-	(465,562)	(1,326,584)
Total Other Financing Sources (Uses)	<u>(563,686)</u>	<u>-</u>	<u>2,110,561</u>	<u>1,546,875</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	2,845,062	(16,909,494)	613,193	(13,451,239)
Fund Equity, July 1, 2002	9,082,865	(5,924,574)	10,983,811	14,142,102
Fund Equity, June 30, 2003	<u>\$ 11,927,927</u>	<u>\$ (22,834,068)</u>	<u>\$ 11,597,004</u>	<u>\$ 690,863</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2003

Total governmental fund balances	\$ 690,863
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	114,154,108
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	5,565,063
<ul style="list-style-type: none">• Internal services funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	(2,960,026)
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(949,768)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(<u>63,103,605</u>)
Net assets of governmental activities	\$ <u>53,396,635</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$(13,451,239)

<ul style="list-style-type: none">Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay purchases	17,670,554
Depreciation	(4,076,567)
<ul style="list-style-type: none">Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	
	(1,312,911)
<ul style="list-style-type: none">The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:	
Issuance of debt	(1,668,697)
Repayments of debt	5,715,203
Bond premium, net of current year amortization	(1,098,817)
<ul style="list-style-type: none">Some expenses reported in the Statement of Activities, such as accrued interest and compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
	562,226
<ul style="list-style-type: none">Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.	
	(1,120,878)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>1,218,874</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

General Fund

Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual

Fiscal Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive</u>
				<u>(Negative)</u>
Revenues and Other Sources:				
Taxes	\$ 114,043,662	\$ 113,060,228	\$ 113,060,228	\$ -
Excise	6,735,900	6,735,900	6,732,861	(3,039)
Penalties, interest and other taxes	1,744,064	1,744,064	2,848,514	1,104,450
Charges for services	2,702,367	2,702,367	2,789,666	87,299
Intergovernmental	28,010,862	28,010,862	27,279,748	(731,114)
Licenses and permits	1,185,155	1,185,155	1,694,183	509,028
Fines and forfeits	420,000	420,000	723,585	303,585
Interest earnings	850,000	850,000	646,892	(203,108)
Other	42,525	42,525	1,273,644	1,231,119
Transfers in	1,942,567	1,942,567	1,980,820	38,253
Other sources	3,697,020	3,978,796	3,978,796	-
Total Revenues and Other Sources	161,374,122	160,672,464	163,008,937	2,336,473
Expenditures and Other Uses:				
General government	7,413,504	7,521,350	7,112,149	409,201
Public safety	20,414,618	20,189,993	19,467,195	722,798
Education	80,199,669	79,126,597	78,862,915	263,682
Public works	8,303,496	8,319,122	8,313,687	5,435
Human services	973,687	973,687	884,387	89,300
Culture and recreation	3,749,185	3,633,465	3,606,976	26,489
Employee benefits	25,735,833	26,418,693	26,277,170	141,523
Debt service	9,135,771	9,041,198	9,014,171	27,027
Intergovernmental	4,587,337	4,587,337	4,606,592	(19,255)
Transfers out	861,022	861,022	861,022	-
Total Expenditures and Other Uses	161,374,122	160,672,464	159,006,264	1,666,200
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 4,002,673	\$ 4,002,673

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Net Assets

June 30, 2003

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Water Fund	Sewer Fund	Arena Fund	
<u>ASSETS</u>				
Current:				
Cash and cash equivalents	\$ 5,314,330	\$ 5,026,233	\$ 420,095	\$ 2,014,673
User fees, net of allowance for uncollectibles	2,681,821	3,524,814	-	-
Total current assets	7,996,151	8,551,047	420,095	2,014,673
Noncurrent:				
Property, plant and equipment, net of accumulated depreciation	24,656,233	12,991,487	758,787	-
Total noncurrent assets	24,656,233	12,991,487	758,787	-
TOTAL ASSETS	32,652,384	21,542,534	1,178,882	2,014,673
<u>LIABILITIES</u>				
Current:				
Warrants payable	117,683	162,237	5,794	786,136
Accounts payable	-	-	172,631	-
Accrued liabilities	11,673	4,811	873	4,188,563
Notes payable	1,852,000	-	347,400	-
Other	1,971	4,598	-	-
Current portion of long-term liabilities:				
Bonds payable	226,136	214,605	4,832	-
Compensated absences	7,131	39,343	45,377	-
Total current liabilities	2,216,594	425,594	576,907	4,974,699
Noncurrent:				
Compensated absences	145	4,164	3,892	-
Bonds and notes payable	1,882,268	871,341	15,000	-
Total noncurrent liabilities	1,882,413	875,505	18,892	-
TOTAL LIABILITIES	4,099,007	1,301,099	595,799	4,974,699
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	23,118,269	12,130,541	745,069	-
Unrestricted	5,435,108	8,110,894	(161,986)	(2,960,026)
TOTAL NET ASSETS	\$ 28,553,377	\$ 20,241,435	\$ 583,083	\$ (2,960,026)

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Fiscal Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Arena Fund	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 8,025,210	\$ 11,839,993	\$ 349,045	\$ 27,376,095
Other	<u>10,485</u>	<u>78,391</u>	<u>2,750</u>	<u>-</u>
Total Operating Revenues	8,035,695	11,918,384	351,795	27,376,095
Operating Expenses:				
Salaries and wages	1,239,188	900,938	269,329	-
Operating expenses	192,564	692,394	305,129	28,572,672
Depreciation	719,833	569,649	31,574	-
Intergovernmental	4,434,725	7,994,236	-	-
Other	<u>886,436</u>	<u>789,297</u>	<u>134,762</u>	<u>-</u>
Total Operating Expenses	<u>7,472,746</u>	<u>10,946,514</u>	<u>740,794</u>	<u>28,572,672</u>
Operating Income (Loss)	562,949	971,870	(388,999)	(1,196,577)
Nonoperating Revenues (Expenses):				
Investment income	39,679	59,113	347	75,699
Interest expense	<u>(52,417)</u>	<u>(58,804)</u>	<u>(8,010)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(12,738)</u>	<u>309</u>	<u>(7,663)</u>	<u>75,699</u>
Income (Loss) Before Transfers	550,211	972,179	(396,662)	(1,120,878)
Transfers:				
Transfers in (net)	<u>-</u>	<u>(20,150)</u>	<u>141,972</u>	<u>-</u>
Change in Net Assets	550,211	952,029	(254,690)	(1,120,878)
Net Assets at Beginning of Year, as restated	<u>28,003,166</u>	<u>19,289,406</u>	<u>837,773</u>	<u>(1,839,148)</u>
Net Assets at End of Year	<u>\$ 28,553,377</u>	<u>\$ 20,241,435</u>	<u>\$ 583,083</u>	<u>\$ (2,960,026)</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Cash Flows

Fiscal Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Arena Fund	Internal Service Fund
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 8,506,144	\$ 11,930,920	\$ 351,795	\$ 27,376,095
Payments to vendors	(5,530,048)	(9,520,968)	(260,790)	(26,989,172)
Payments to employees	(1,231,912)	(857,431)	(223,297)	-
Net Cash Provided By (Used For) Operating Activities	1,744,184	1,552,521	(132,292)	386,923
Cash Flows From Noncapital Financing Activities:				
Transfers in	372,600	508,350	141,972	-
Transfer out	(372,600)	(528,500)	-	-
Net Cash (Used For) Noncapital Financing Activities	-	(20,150)	141,972	-
Cash Flows From Capital and Related Financing Activities:				
Proceeds from issuance of bonds and notes	2,349,500	225,000	367,232	-
Acquisition and construction of capital assets	(2,234,929)	(741,109)	(19,668)	-
Principal payments on bonds and notes	(544,324)	(161,364)	-	-
Interest expense	(52,417)	(58,804)	(8,010)	-
Net Cash (Used For) Capital and Related Financing Activities	(482,170)	(736,277)	339,554	-
Cash Flows From Investing Activities:				
Investment income	39,679	59,113	347	75,699
Net Change in Cash and Cash Equivalents	1,301,693	855,207	349,581	462,622
Cash and Cash Equivalents, Beginning of Year	4,012,637	4,171,026	70,514	1,552,051
Cash and Cash Equivalents, End of Year	\$ 5,314,330	\$ 5,026,233	\$ 420,095	\$ 2,014,673
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Operating income (loss)	\$ 562,949	\$ 971,870	\$ (388,999)	\$ (1,196,577)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	719,833	569,649	31,574	-
Changes in assets and liabilities:				
User fees	386,478	(70,028)	-	-
Other assets	25,615	-	-	-
Warrants payable	59,561	63,039	178,228	784,162
Accrued liabilities	7,276	43,507	46,032	-
Other liabilities	(17,528)	(25,516)	873	799,338
Net Cash Provided By (Used For) Operating Activities	\$ 1,744,184	\$ 1,552,521	\$ (132,292)	\$ 386,923

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2003

	Pension Trust Fund (as of <u>December 31, 2002</u>)	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 766,453	\$ 7,418,661
Investments	<u>111,917,880</u>	<u>-</u>
Total Assets	112,684,333	7,418,661
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	4,015	-
Deferred revenue	3,398,200	-
Other liabilities	<u>-</u>	<u>7,418,661</u>
Total Liabilities	<u>3,402,215</u>	<u>7,418,661</u>
Total Net Assets Held in Trust For Pension Benefits	\$ <u><u>109,282,118</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Changes in Plan Net Assets
Pension Trust Fund

For the Year Ended December 31, 2002

Additions:

Contributions:

Employers	\$ 6,658,900
Plan members	3,606,224
Reimbursements from Federal grants	99,233
Reimbursements from Commonwealth of Massachusetts	668,367
Reimbursements from other systems	<u>613,096</u>
Total contributions	11,645,820

Investment Income:

Interest and dividends	3,888,797
Realized gain/(loss)	(6,602,189)
Unrealized appreciation (depreciation) in market value	<u>(12,026,151)</u>
Net investment income	<u>(14,739,543)</u>

Total additions (3,093,723)

Deductions:

Benefit payments to plan members and beneficiaries	12,684,667
Reimbursements to other systems	253,228
Refunds and transfers of plan member accounts to other systems	1,128,758
Administrative expenses	<u>199,301</u>
Total deductions	<u>14,265,954</u>

Net (decrease) (17,359,677)

Net assets held in trust for pension benefits:

Beginning of Year	<u>126,641,795</u>
End of Year	<u>\$ 109,282,118</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Framingham (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Framingham Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 150 Concord Street, Framingham, MA 01702.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within

60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The High School Building projects fund accounts for all costs related to construction of the new high school.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- The water fund is used to report the Town's water enterprise fund operations.
- The sewer fund is used to report the Town's sewer enterprise fund operations.
- The arena fund is used to report the Town's arena enterprise fund operations.

The self-insured employee health program is reported as an internal service fund in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be cash equivalents.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System are fully invested in the Commonwealth's Pension Reserve Investment Trust, and are carried at fair value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2003 tax levy reflected an excess capacity of \$ 42,590.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	7 - 20
Water/sewer infrastructure	50 - 75
Vehicles	5 - 10
Office equipment	5 - 10
Computer equipment	5

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds.

Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 170,578,070	\$ 167,169,322
Other financing sources/uses (GAAP basis)	<u>297,336</u>	<u>861,022</u>
Subtotal (GAAP Basis)	170,875,406	168,030,344
Adjust tax revenue to accrual basis	(1,005,703)	-
Reverse expenditures of prior year carryforwards	-	(846,309)
Add end of year appropriation carryforwards to expenditures	-	797,320
Teachers' deferral	1,591,663	1,790,620
To reverse the effect of non- budgeted State contributions for teachers retirement	(12,431,225)	(12,431,225)
Recognize other sources and uses	<u>3,978,796</u>	<u>1,665,514</u>
Budgetary basis	\$ <u>163,008,937</u>	\$ <u>159,006,264</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Intergovernmental	\$ 19,255
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E. Deficit Fund Equity

The following funds had deficits as of June 30, 2003:

High School Building fund	\$(22,834,068)
Non-major governmental funds:	
MEMA-HMGP	(6,472)
Chapter 53(c)	(12,200)
Chapter 235	(62,000)
Proprietary funds:	
Internal service	(2,960,026)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Cash Equivalents

The carrying amount of the Town's and Retirement System's deposits with financial institutions at June 30, 2003 and December 31, 2002 was \$ 72,757,912 and \$ 766,453, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

	<u>Town Deposits</u> <u>June 30, 2003</u>	<u>Retirement System</u> <u>Deposits</u> <u>December 31, 2002</u>
Amount insured by the FDIC and DIF, or collateralized with securities held by the Town in its name	\$ 742,040	\$ 100,000
Uncollateralized	51,851,677	36,263
State investment pool	<u>19,856,244</u>	<u>735,263</u>
Total Bank Balance	\$ <u>72,449,961</u>	\$ <u>871,526</u>

4. Investments

Contributory Retirement System investments are part of the Commonwealth's Pension Reserve Investment Trust and are categorized as uninsured and

unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2003 consist of the following (in thousands):

Real Estate		
2003	\$ 1,103	
Prior	<u>8</u>	
		1,111
Personal Property		
2003	146	
2002	93	
Prior	<u>742</u>	
		981
Tax Liens		2,380
Deferred Taxes		<u>202</u>
Total		\$ <u>4,674</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 1,148	\$ -
Excises	575	-
Utilities	-	206

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2003.

8. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Beginning Balance (1)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 95,317,864	\$ 244,659	\$ -	\$ 95,562,523
Machinery, equipment, and furnishings	1,902,853	1,402,511	-	3,305,364
Vehicles	<u>7,018,889</u>	<u>864,315</u>	<u>-</u>	<u>7,883,204</u>
Total capital assets, being depreciated	104,239,606	2,511,485	-	106,751,091
Less accumulated depreciation for:				
Buildings and improvements	(23,997,827)	(2,876,260)	-	(26,874,087)
Machinery, equipment, and furnishings	(812,412)	(417,855)	-	(1,230,267)
Vehicles	<u>(3,885,173)</u>	<u>(782,452)</u>	<u>-</u>	<u>(4,667,625)</u>
Total accumulated depreciation	(28,695,412)	(4,076,567)	-	(32,771,979)
Total capital assets, being depreciated, net	75,544,194	(1,565,082)	-	73,979,112
Capital assets, not being depreciated:				
Land	17,148,927	106,618	-	17,255,545
Construction in progress	<u>7,867,000</u>	<u>17,563,936</u>	<u>(2,511,485)</u>	<u>22,919,451</u>
Total capital assets, not being depreciated	<u>25,015,927</u>	<u>17,670,554</u>	<u>(2,511,485)</u>	<u>40,174,996</u>
Governmental activities capital assets, net	\$ <u>100,560,121</u>	\$ <u>16,105,472</u>	\$ <u>(2,511,485)</u>	\$ <u>114,154,108</u>

(1) As restated. See Note 22.

Note: The Town has not yet fully capitalized infrastructure assets for governmental activities.

	<u>Beginning Balance (1)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,921,444	\$ 82,338	\$ -	\$ 4,003,782
Machinery, equipment, and furnishings	1,075,531	37,536	-	1,113,067
Infrastructure	55,512,486	2,864,579	(64,587)	58,312,478
Vehicles	<u>1,788,548</u>	<u>339,770</u>	<u>(144,661)</u>	<u>1,983,657</u>
Total capital assets, being depreciated	62,298,009	3,324,223	(209,248)	65,412,984

(continued)

(continued)

	Beginning Balance (1)	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings and improvements	(2,505,814)	(97,032)	-	(2,602,846)
Machinery, equipment, and furnishings	(557,407)	(33,585)	-	(590,992)
Infrastructure	(23,639,665)	(978,024)	63,527	(24,554,162)
Vehicles	(1,287,564)	(212,415)	103,007	(1,396,972)
Total accumulated depreciation	(27,990,450)	(1,321,056)	166,534	(29,144,972)
Total capital assets, being depreciated, net	34,307,559	2,003,167	42,714	36,268,012
Capital assets, not being depreciated:				
Land	639,803	-	-	639,803
Construction in progress	1,617,962	1,853,777	1,973,047	1,498,692
Total capital assets, not being depreciated	2,257,765	1,853,777	1,973,047	2,138,495
Business-type activities capital assets, net	\$ 36,565,324	\$ 3,856,944	\$ 2,015,761	\$ 38,406,507

(1) As restated. See Note 22.

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 439,757
Public safety	700,274
Education	1,849,536
Public works	552,876
Health and human services	15,313
Culture and recreation	518,811
Total depreciation expense - governmental activities	\$ 4,076,567
Business-Type Activities:	
Water	\$ 719,833
Sewer	569,649
Arena	31,574
Total depreciation expense - business-type activities	\$ 1,321,056

9. Warrants and Accounts Payable

Warrants payable represent 2003 expenditures paid by July 15, 2003 as permitted by law. Accounts payable represent additional 2003 expenditures paid after July 15, 2003.

10. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2003 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

12. Notes Payable

The Town had the following notes outstanding at June 30, 2003:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2003</u>
Bond anticipation	2.50%	03/21/03	03/01/05	\$ 20,758,000
Bond anticipation	2.00%	03/21/03	03/01/05	3,000,000
Bond anticipation	1.25%	06/12/03	03/30/04	2,283,000
Bond anticipation	3.00%	06/12/03	03/01/05	<u>20,670,000</u>
Total				<u>\$ 46,711,000</u>

The following summarizes activity in notes payable during fiscal year 2003:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond Anticipation	\$ 4,982,264	\$ -	\$ 4,982,264	\$ -
Bond Anticipation	19,421,000	-	19,421,000	-
Bond Anticipation	130,000	-	130,000	-
Bond Anticipation	-	20,758,000	-	20,758,000
Bond Anticipation	-	3,000,000	-	3,000
Bond Anticipation	-	2,283,000	-	2,283,000
Bond Anticipation	-	<u>20,670,000</u>	<u>-</u>	<u>20,670,000</u>
Total	<u>\$ 24,533,264</u>	<u>\$ 46,711,000</u>	<u>\$ 24,533,264</u>	<u>\$ 46,711,000</u>

13. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2003
<u>Governmental Activities:</u>			
General obligation	06/05	4.33	\$ 360,000
General obligation	09/04	4.35	350,000
General obligation	07/07	4.43	2,125,000
General obligation	03/12	3.83	2,370,000
General obligation	08/14	4.00	11,530,000
General obligation	10/14	5.90	1,570,000
General obligation	03/15	4.94	8,370,000
General obligation	02/19	4.34	16,000,000
General obligation	03/13	3.00	1,191,668
General obligation	11/03	-	477,029
General obligation	03/20	5.51	<u>15,590,002</u>
Total Governmental			59,933,699
<u>Business-Type Activities:</u>			
Water bond (MWRA)	03/13	3.00	517,326
Sewer bond	09/04	4.35	150,000
Sewer bond (MWRA)	05/07	-	187,617
Water bond	03/12	3.83	135,000
Water bond (MWRA)	03/20	5.51	694,544
Sewer bond	11/03		225,000
Sewer bond	03/12	3.83	225,000
Water bond (MWRA)	05/12	-	781,362
Sewer bond (MWRA)	06/15	2.54	<u>298,333</u>
Total Proprietary			<u>3,214,182</u>
Total All Debt			\$ <u>63,147,881</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2003 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 5,965,550	\$ 2,690,528	\$ 8,656,078
2005	5,694,063	2,425,949	8,120,012
2006	4,944,258	2,164,061	7,108,319
2007	4,664,453	1,959,982	6,624,435
2008	4,594,651	1,765,557	6,360,208
2009 - 2013	19,270,723	6,136,227	25,406,950
2014 - 2018	11,860,001	2,367,819	14,227,820
2019 - 2023	<u>2,940,000</u>	<u>221,461</u>	<u>3,161,461</u>
Total	\$ <u>59,933,699</u>	\$ <u>19,731,584</u>	\$ <u>79,665,283</u>

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2003.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 445,573	\$ 115,346	\$ 560,919
2005	444,152	102,362	546,514
2006	365,130	91,014	456,144
2007	366,169	82,107	448,276
2008	322,540	73,028	395,568
2009 - 2013	1,012,699	225,124	1,237,823
2014 - 2018	162,919	49,934	212,853
2019 - 2023	<u>95,000</u>	<u>11,780</u>	<u>106,780</u>
Total	\$ <u>3,214,182</u>	\$ <u>750,695</u>	\$ <u>3,964,877</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2003, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/02</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/03</u>	Less Current Portion <u>6/30/03</u>	Equals Long-Term Portion <u>6/30/03</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 63,980	\$ 1,669	\$(5,715)	\$ 59,934	\$(5,966)	\$ 53,968
Accrued employee benefits	2,170	-	(99)	2,071	(1,548)	523
Unamortized premium	-	1,157	(58)	1,099	(550)	549
Totals	\$ <u>66,150</u>	\$ <u>2,826</u>	\$ <u>(5,872)</u>	\$ <u>63,104</u>	\$ <u>(8,064)</u>	\$ <u>55,040</u>
 <u>Business-Type Activities</u>						
Bonds payable	\$ 2,972	\$ 742	\$(500)	\$ 3,214	\$(446)	\$ 2,768
Accrued employee benefits	96	4	-	100	(92)	8
Totals	\$ <u>3,068</u>	\$ <u>746</u>	\$ <u>(500)</u>	\$ <u>3,314</u>	\$ <u>(538)</u>	\$ <u>2,776</u>

14. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. Reserves of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2003:

Reserved for Encumbrances and Continuing Appropriations - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

16. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to overexpend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax

abatements and exemptions over the provision for abatements and exemptions (overlay).

The Massachusetts State Legislation also allowed municipalities to defer funding for a portion of the 1992 and 1993 teachers' summer pay to future years. This must be funded within a 15-year period, beginning in 1997.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 4,915,311
Teacher pay deferral	1,591,662
Tax refund estimate	<u>994,362</u>
Statutory (UMAS) Balance	\$ <u>7,501,335</u>

17. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

18. Post-Retirement Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2003 was not available.

19. Contributory Retirement System

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Framingham Contributory Retirement System (FCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the FCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the FCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The FCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2002, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	812
Terminated plan members entitled to but not yet receiving benefits	27
Active plan members	<u>1,162</u>
Total	<u>2,001</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute. All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Effective January 1, 1990, all participants hired after January 1, 1979, must pay an additional 2% of salary in excess of \$ 30,000. The Town's current year covered payroll for teachers was unavailable.

In fiscal year 2003, the Commonwealth of Massachusetts contributed \$ 12,431,225 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Self Insurance

The Town self-insures against claims for workers compensation, unemployment and most employee health coverage. Annual estimated requirements for claims are provided in the Town's annual operating budget.

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its

insurance coverage, the Town is liable for claims up to \$ 75,000 per incident, with a maximum lifetime coverage of \$2,000,000. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2003 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2002	\$ 3,389,225
Claims incurred/recognized in fiscal year 2003	28,572,672
Claims paid in fiscal year 2003	<u>(27,773,334)</u>
Claims liability, June 30, 2003	\$ <u>4,188,563</u>

21. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

22. Beginning Fund Balance/Net Asset Restatement

The beginning (July 1, 2002) fund balances/net assets of the Town have been restated as follows:

	<u>Governmental Activities</u>	<u>Water Enterprise Fund</u>	<u>Sewer Enterprise Fund</u>
As previously reported	\$ 92,545,270	\$ 27,302,303	\$ 20,180,193
Correct prior year capital assets	(1,005,429)	700,863	(890,787)
Remove receivable established for reimbursement from Commonwealth for eligible school debt service	<u>(39,362,080)</u>	<u>-</u>	<u>-</u>
As restated	\$ <u>52,177,761</u>	\$ <u>28,003,166</u>	\$ <u>19,289,406</u>

TOWN OF FRAMINGHAM, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b - a)/c]
1/01/91	\$ 40,645	\$ 92,433	\$ 51,788	44.0%	\$ 27,351	189%
1/01/95	\$ 62,360	\$ 122,220	\$ 59,860	51.0%	\$ 29,168	205%
1/01/98	\$ 105,941	\$ 156,983	\$ 51,042	67.5%	\$ 33,120	154%
1/01/00	\$ 147,572	\$ 181,149	\$ 33,577	81.5%	\$ 39,871	84%
1/01/02	\$ 142,893	\$ 206,810	\$ 63,917	69.1%	\$ 42,132	152%

Information is only provided for those years in which an actuarial valuation or actuarial update was performed. Information prior to 1991 is not available.

Schedule of Employer Contributions (Town share only):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1993	\$ 5,378,958	100%
1994	5,663,861	100%
1995	6,805,493	100%
1996	6,195,869	100%
1997	6,449,439	100%
1998	6,655,700	100%
1999	6,945,980	100%
2000	6,888,019	100%
2001	6,023,613	100%
2002	6,521,400	100%
2003	6,796,400	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	January 1, 2002
Actuarial cost method	Individual entry age normal
Amortization method	4.5% increasing
Remaining amortization period	26 years
Asset valuation method	5 year smoothing
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75 - 5.25%
Cost of living adjustments	3% of \$ 12,000 per year of retirement income (included in January 1, 1998 figures)

See Independent Auditors' Report.